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COMPANY NEWS

The Rescue of Delta Data Systems

It Survived In a Thicket Of Casualties

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TREVOSE, Pa., June 9 — For the small companies that come and go at the feet of the industry's giants, computer terminal manufacturing can be a business of sudden extremes.

Just two years ago, the Delta Data Systems Corporation, a manufacturer that does substantial business with NATO and with United States Government agencies, was in such bad shape that it took an outside auditing team 12 weeks to locate \$1.1 million that somehow had been improperly accounted for in the company's disorganized inventory control system.

Today, the company has completed its first profitable year in a half-decade. For the fiscal year ended March 31, it reported net income of \$1.5 million on sales of \$27 million, compared with a loss of \$490,000 on sales of \$23 million for the previous year. In over-the-counter trading today, its shares closed at \$1.50 bid, unchanged.

To be sure, all but about \$400,000 of the 1982 fiscal year's net was derived from such extraordinary gains as a discount taken on payment of a bank debt and a tax benefit from carrying forward a previous year's losses.

—But the step into the black has given Delta Data its first flexibility in years. It is now negotiating to lower the 3 percent-above-prime interest rate it pays on its \$4 million demand loan — instead of having to beg to maintain its line of credit each year.

An Unlikely Survivor

The terminal manufacturing industry, because relatively little in the way of start-up costs is required, tends to fill up rapidly with small companies hoping to serve specialized needs ignored by International Business Machines, Burroughs, Hewlett-Packard, Digital Equipment and the other fixtures of the field. And just as rapidly, those small companies that have weaknesses in management, marketing or inventory control tend to collapse.

The turning of the wheel has intensified in the last year, according to James Meyer, an industry analyst with Janney Montgomery Scott, a Philadelphia brokerage, as the cost of crucial components has dropped dramatically. In the last 18 months

alone, he said, the cost of certain memory chips has come down 90 percent. "As there are new companies coming in every day, there are also new companies going out every day," he said.

In that context, Delta Data Systems, with a plant in England as well as the one in this Philadelphia suburb, is an unlikely survivor.

The company's problems stemmed from inadequate financial and inventory controls, according to Robert C. Aldworth, who led a team that investigated the company's discrepancies and who is now its vice president of finance and treasurer.

In early 1981, some major shareholders — including the Allstate Insurance Company, which owns a 29.7 percent stake in Delta Data — brought in a new president, Robert J. Smallacombe, a 49-year-old marketing-oriented executive with a record of turning around small high-technology companies.

His task was to infuse some organization into the company, and one of his first meetings was with the First Pennsylvania Bank of Philadelphia, which had been extending Delta Data a credit line of \$4.4 million and had run out of patience with the company.

Mr. Smallacombe broke off with First Pennsylvania and persuaded another bank, the Philadelphia National, to syndicate a refinancing package. Philadelphia National had worked with him in his turnaround of Farag Inc., an automated material-handling equipment maker.

"They first cited specific things we had to do before they would be our bank," he said. Delta Data was told it could not use the receivables of Delta Data Systems Ltd., its British subsidiary, to secure loans. So the bank introduced the company to Arbuthnot Latham & Company, an affiliated bank in England, which would lend to the subsidiary on the strength of its receivables.

Beyond the financial arrangements, Mr. Smallacombe embarked on a thoroughgoing housecleaning. After six weeks as president and chief executive officer, he asked for the resignation of Delta Data's co-founder and chairman, H. Barry Maser, as well as about a dozen other key people. He reduced the company's projected revenue of \$34 million to \$29 million and trimmed the budget accordingly, laying off 50 of the company's 500 em-

ployees.

Next, Delta Data worked to cut production costs. The company ceased making its own monitors (components that enable characters to appear on the screen) for some of its terminal lines. Instead, it began buying the monitors from other manufacturers. And it reduced the screen size on some models and replaced sheet metal cases with plastic.

In all, the company managed to reduce by 40 percent the cost of producing its 2830 Burroughs Emulator, a terminal that sells for about \$2,000 and is compatible with certain Burroughs computer systems.

The 2830 Burroughs Emulator is one of Delta Data's major products. The biggest seller, however, is its line of Tempest Terminals, a product valued primarily for security features allowing memory disks to be removed when not in use. The Tempests have been sold for about \$8,000, including programs and extended memory, to the North Atlantic Treaty Organization and to American military and intelligence agencies. Altogether, about 35 percent of Delta Data's terminals are sold to the United States and foreign governments.